

The Architect Heads for The Exit

Karl Rove hits the road



How Wall St. Caused the Housing Mess



He's Nice. He's Harmless. So Why Do Kids Love Zac Efron?

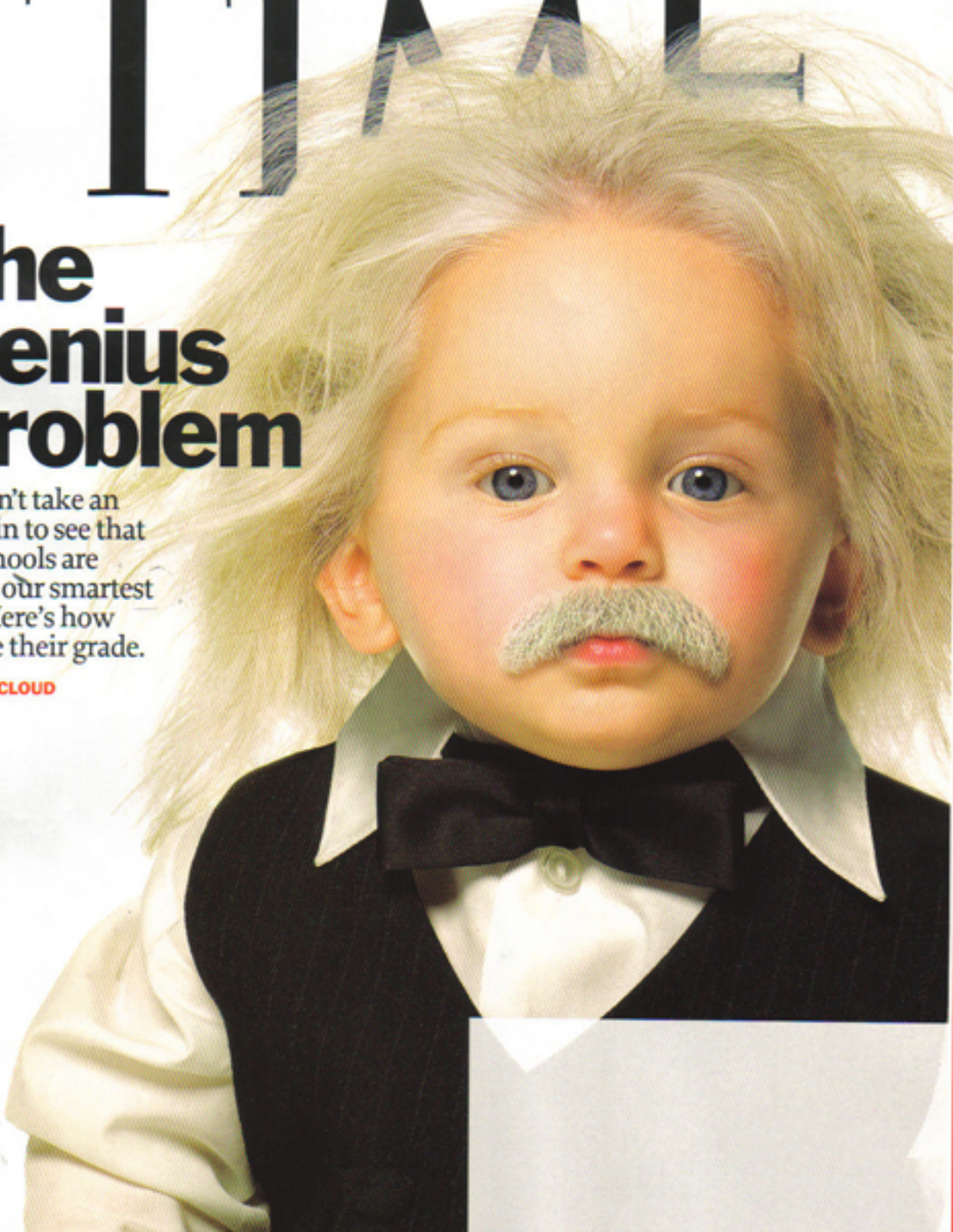


TIME

The Genius Problem

It doesn't take an Einstein to see that our schools are failing our smartest kids. Here's how to raise their grade.

BY JOHN CLOUD



common incentive cited by young adults considering an enlistment.

Those benefits are also a good reason for National Guard members to keep renewing their commitments. Under the current G.I. Bill, Guard members and reservists who have spent two years in Iraq or Afghanistan get \$860 a month in tuition assistance if they attend college full time (compared with the \$1,075 a month that active-duty veterans receive), but this benefit ends the moment they leave the Guard. Bush also argues that reservists don't need as much help transitioning to civilian life. "They can go back to their jobs, but an active-duty member is really changing careers," he says.

Aside from retention issues, Webb's bill faces another significant hurdle: cost. The VA estimates that the price tag for improving education benefits for post-9/11 veterans would be \$74.7 billion through 2017. Webb counters by pointing to 1944, when the G.I. Bill was expanded to give tuition

Improving education benefits for post-9/11 veterans would cost \$74.7 billion through 2017, estimates the VA

benefits to all service members who fought in World War II. "Nobody asked these financial questions when they had 8 million returning veterans," he says.

The funding question is worse at the state level. In Missouri a bill that would have significantly cut costs for all vets at state universities stalled in May because state schools pleaded that the proposed benefits would cost them nearly \$2 million a year. Says Scott Charton, spokesman for the University of Missouri: "If the state feels that this is a priority, then it's worth it for the state to fund it."

Meanwhile, California's cash-strapped state legislature is debating whether to approve Governor Arnold Schwarzenegger's proposal to start allocating tuition-assistance funds to help boost membership in the

20,000-strong California Guard. Democratic state senator Lou Correa sent a letter to his colleagues this summer urging them to fund the additional

benefits for Guard members. "A lot of these guys are losing their jobs, their houses, their cars because they're being called back to Iraq for a third time," Correa says. "Would we try to deny tuition assistance to World War II veterans? What's the difference between those heroes and these heroes?" The answer may be our fiscal priorities. ■

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BUSINESS

Profiting from the Unbanked. As check cashing booms and Wal-Mart looms, banks chase a group they once ignored



Risk management To verify customers' identity without U.S. ID, firms like Banuestra use fingerprints

BY ANITA HAMILTON/NORCROSS

AURELIO LEONEL ALVAREZ-ROSALES EARNS about \$300 a week painting houses in the sprawling suburbs north of Atlanta. He lives paycheck to paycheck and often has nothing left over at the end of each week. So on Friday nights, when Alvarez-Rosales, 21, goes to cash his check, he pulls into the parking lot at the Norcross branch of Banuestra, an alternative financial institution aimed at serving the estimated 40 million adults in the U.S. without bank accounts. For him, every dollar counts, and compared with the 24-hour Atlanta Check Cashers outlet down the road, which charges a 3% fee to cash a payroll check, Banuestra is a bargain, taking just 1%, or \$3, out of his weekly pay. He doesn't even consider the Wachovia bank across the street on Jimmy Carter Boulevard. It closes too early, and more im-

portant, makes potential customers like Alvarez-Rosales jump through too many hoops to get service.

Banuestra is one of the new breed of financial-service providers—which now include Wal-Mart—that aim to marry the convenience of a check casher with the relative security of a bank. By offering lower basic check-cashing fees along with debit cards and reasonably priced consumer loans, these businesses hope to pocket a chunk of the more than \$10 billion in fees that check cashers, payday loaners and pawn shops collect each year. Long ignored by traditional financial institutions, the unbanked get their modest earnings shaved even thinner by the high fees they pay simply to cash their paychecks. That's beginning to change as banks seek out new revenue sources and the unbanked enjoy a little more financial flexibility.

A growing portion of unbanked America

comprises immigrants like Alvarez-Rosales. In states like Georgia, where immigrant communities are more recently established but growing quickly, immigrants are less likely to send money home, according to a new report from the Inter-American Development Bank, so they may have a greater need for banking services.

But the majority of the unbanked are American born. What these two groups have in common is low incomes, so they often may not have the minimum balance required at many banks to open a regular checking or savings account. Some people also lack the proper identification, like a tax ID or Social Security number, required to open an account, or have bounced too many checks in the past. Without a bank to cash their checks—a service generally free to account holders—the unbanked rely on check cashers, which charge up to 10% for a handwritten check. Despite decades of criticism from consumer advocates about these high fees, only 25 states cap rates.

Now the party may be ending for the nation's 13,000 check cashers. With retail banks facing stagnant revenue growth, they are vying for a foothold in what some call the "last frontier" of the domestic market. Over the past six years, Wells Fargo has opened 1 million accounts for Mexican nationals living in the U.S. by becoming the first bank to accept the Matricula Consular identification card that Mexican consulates in the U.S. began issuing after 9/11. A growing number of banks, including KeyBank and Union Bank of California, are also offering low-cost check cashing as a way to encourage people to convert to regular bank accounts. To reduce the risk of fraud, KeyBank also requires thumbprint ID.

The biggest hurdle is getting customers in the door. "People are creatures of habit. They grew up and saw their parents going to check cashers, and they continue their parents' habits," says Ignacio Valenzuela, who runs Union Bank's alternative financial services. Another problem is perception. "Many people don't trust banks," says Hank Shyne, director of the Financial Service Centers of America, a trade group representing the check-cashing industry. "They have that fear of being overdrawn. They are much more comfortable dealing with cash," he says.

Ironically, banks have long benefited in-

directly from the thriving check-cashing industry by supplying the loans and cash that check cashers use to pay these same customers. ACE Cash Express, which has more than 1,700 outlets across the country, works with Wells Fargo, JPMorgan Chase, Union Bank and others. Banks have shied away from serving the unbanked population directly because this slice of the market clashes with their business model. Banks get much of their profit from the interest they earn by lending out the money held in long-term deposits, but check cashers depend on a high volume of small transactions to generate revenue through fees. "The changes are not that simple," C.K. Prahalad, a University of Michigan economist and ex-



Payday Cut-rate check cashing draws Latino immigrants in the Atlanta area to Banuestra

pert on marketing to the poor, says of the different ways banks need to operate to serve these customers.

Although banks have tried to educate the poor on how to manage an account, they need to do a better job adapting their business to what this population truly needs. For one thing, the overdraft and late fees that banks pile on are an unacceptable risk to the unbanked, who can't afford to lose access to their funds. Check cashers prefer the term self-banked for these customers and say they are wise to steer clear of banks for exactly these reasons. "Check cashing is very popular because even though the costs are very high, there is certainty to it," says Prahalad.

For banks and check cashers, the serious competition will come over the next year as Wal-Mart rolls out more than 1,000 dedicated check-cashing outlets in its stores, charging a flat fee of just \$3 per check. Check cashers have already responded by sprucing up their offerings. Pay-O-Matic, which operates 100 outlets in New York City, recently launched a debit card that earns 3% annual interest on the unused balance. (Wal-Mart's debit card, on the other hand, does not earn interest.) With such nimble competitors, banks will have to move faster than ever to win over the millions of people who may soon discover that they can get all the bank they need without ever setting foot in one. ■

THE COST OF CASH Average fee charged by check-cashing outlets to process a handwritten payroll check



Source: Consumer Federation of America



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